

FISCAL NOTE

Bill #: HB0074

Title: Appropriate coal trust funds for this biennium

Primary Sponsor: Lewis, D

Status: Third Reading

Sponsor signature	Date	Chuck Swysgood, Budget Director	Date
-------------------	------	---------------------------------	------

Fiscal Summary

	FY 2004	FY 2005
	<u>Difference</u>	<u>Difference</u>
Expenditures:		
General Fund	\$31,600,000	\$0
Trust Fund - Coal Severance Tax Permanent	(\$31,600,000)	\$0
Revenue:		
General Fund	\$31,600,000	(\$2,275,000)
Net Impact on General Fund Balance:	\$0	(\$2,275,000)

- | | |
|--|---|
| <input type="checkbox"/> Significant Local Gov. Impact | <input checked="" type="checkbox"/> Technical Concerns |
| <input checked="" type="checkbox"/> Included in the Executive Budget | <input checked="" type="checkbox"/> Significant Long-Term Impacts |
| <input type="checkbox"/> Dedicated Revenue Form Attached | <input type="checkbox"/> Needs to be included in HB 2 |

Fiscal Analysis

ASSUMPTIONS:

1. At the end of fiscal 2004, \$31.6 million would be transferred from the coal severance tax permanent fund to the general fund.
2. The coal severance tax permanent fund's holdings of Trust Fund Bond Pool shares would be reduced by \$31.6 million beginning in fiscal 2005. The projected interest rate on the Trust Fund Bond Pool for fiscal 2005 is 7.2%. Interest earnings paid to the general fund would be reduced by \$2.275 million in fiscal 2005 (7.2% x \$31.6 million).
3. This will be no administrative impacts on the Department of Revenue or the Board of Investments.
4. Interest rates are projected to increase between now and the end of fiscal 2004. For every 1 percentage point increase in interest rates, the market price of bonds in the Trust Fund Bond Pool portfolio is projected to decrease 7%. The yield on new 30-year Treasury bonds was 4.779% on December 31, 2002 and is projected to increase to 6.3939% on June 29, 2004. If this occurs, the Trust Fund Bond Pool would incur losses of approximately \$1.7 million on the sale of assets with a market value of \$31.6 million.
5. Realized capital gains or losses of the Trust Fund Bond Pool are distributed as part of the earnings of the trust funds that own shares of the pool in proportion to their holdings. The coal severance tax permanent trust and the school trust own about two-thirds of the shares. About two-thirds of any gain or loss would show up in trust fund earnings going to the general fund and the guarantee account. About one-third would show up in earnings on other state trust funds.
6. The Board of Investments and Office of Budget and Program Planning will manage the timing of transfer to minimize or eliminate these potential losses.

Fiscal Note Request HB0074, Third Reading

(continued)

7. This bill provides appropriations from the general fund in the 2005 biennium totaling \$31.6 million. These funds will be expended in FY2004.
8. Beginning in fiscal 2005, this bill would transfer to the coal severance tax permanent fund any amount by which the unreserved, undesignated general fund ending balance for the previous fiscal year exceeds \$50 million. Under current law, and under this bill, the unreserved, undesignated general fund ending balance is less than \$50 million, so that no transfer is projected.

FISCAL IMPACT:

<u>Expenditures:</u>	FY 2004 <u>Difference</u>	FY 2005 <u>Difference</u>
Operating Expenses (other agencies)	\$12,679,188	
Benefits (DPHHS)	15,720,556	
Transfers (higher education)	3,200,256	
Transfers (trust fund to general fund)	<u>\$31,600,000</u>	
TOTAL	\$73,200,000	

Funding of Expenditures:

General Fund (01)	\$31,600,000
Other - Coal Severance Tax Permanent Fund	<u>\$31,600,000</u>
TOTAL	\$73,200,000

Revenues:

General Fund (01)	\$31,600,000	\$(2,275,000)
-------------------	--------------	---------------

Net Impact to Fund Balance (Revenue minus Funding of Expenditures):

General Fund (01)	\$0	\$(2,275,000)
Other - Coal Severance Tax Permanent Fund	<u>\$(31,600,000)</u>	

LONG-RANGE IMPACTS:

1. Beginning in fiscal 2005, this bill would transfer to the coal severance tax permanent fund any amount by which the ending general fund balance for the previous fiscal year exceeds \$50 million. As long as the cumulative amount of such excess ending fund balances is less than \$31.6 million, interest earnings going to the general fund will be reduced.
2. While no balance greater than \$50 million is projected by the legislature, in the past 7 biennia the median fund balance in excess of that anticipated when the legislature completed action has been \$25 million though there has been significant variance. If at the end of the fiscal year 2004 one-half of this were generated, \$12.5 million would be deposited to the permanent trust fund in fiscal year 2005.

TECHNICAL NOTES:

1. HB 74 as amended does not specify from which of the 5 sub-funds comprising the coal severance tax trust the transfer is to be made from. The only sub-fund in the trust sufficiently large to accommodate a transfer of this size is the permanent sub-fund portion. The bill should be amended to specify that the transfer be made from the permanent sub-fund portion of the trust.
2. Section 2 refers to "the money transferred in Section 1." Section 1 contains two transfers. Subsection 1(1) transfers funds from the coal severance tax trust fund to the general fund. Subsection 1(2) transfers funds from the general fund to the coal severance tax trust fund. Since Section 2 appropriates funds from the general fund, this fiscal note assumes that the intended reference is to Subsection 1(2).